

1995 Annual Report

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MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY

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MUNICIPAL BOND AUTHORITY

**Under the Authority of Part 53, Clean Water Assistance, of the Natural Resources and Environmental Protection Act, Act
451 of the Public Acts of 1994 and Act 316 of the Public Acts of 1988**

ANNUAL REPORT
MICHIGAN STATE REVOLVING FUND

Prepared by:
Municipal Facilities Section
Environmental Assistance Division
PO Box 30457
Lansing, MI 48909-7957
517-373-2161

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I. INTRODUCTION

This Fiscal Year (FY) 1995 Annual Report is submitted to the United States Environmental Protection Agency (EPA) in compliance with Sec. 602(b)(10) and Sec. 606(d) of the Federal Water Pollution Control Act, P.L.92-500, as amended. It covers the period from October 1, 1994, to September 30, 1995, highlighting the activities of Michigan's State Revolving Fund (SRF) loan program.

It is important to note that as of October 1, 1995, responsibility for the SRF shifted to the newly created Michigan Department of Environmental Quality (MDEQ). Principal administration of the program continues to reside in the Municipal Facilities Section of the Environmental Assistance Division (EAD). However, since this report reflects activity during the fiscal year running from October 1, 1994 through September 30, 1995, the reader should note that activities reported here took place under the auspices of the Michigan Department of Natural Resources (MDNR).

MDEQ and the Michigan Municipal Bond Authority (the Authority) jointly administer this program under the authority of Part 53, Clean Water Assistance, of the Natural Resources and Environmental Protection Act, Act 451 of the Public Acts of 1994 and Act 316 of the Public Acts of 1988. The former citation does not represent a major change in the authorizing environmental legislation. Instead, it reflects the inclusion of Act 317 into a comprehensive environmental code. The latter citation sets forth the administrative controls under which the Authority must function. Michigan also conducts the activities of its SRF consistent with requirements established in the federal Water Pollution Control Act (P.L.92-500, as amended) and federal regulation.

Since Congress did not reauthorize the SRF program during FY 1995, Michigan's program officials have worked with other federal and state officials to shape new legislation to amend the Clean Water Act. Participating through the National Governors Association (NGA), the Association of State and Interstate Water Pollution Control Administration (ASIWPCA), and the Council of Infrastructure Financing Authorities (CIFA), Michigan has been at the forefront of efforts to continue federal support for the SRF.

We offer this comprehensive public report to detail the activities undertaken to reach the objectives set forth in the FY 1995 final Intended Use Plan (IUP). The report is offered in written form and will be available early in 1996 as a read-only

file through the Municipal Facilities Section Home Page found in the World Wide Web on Internet. The Internet address is **HTTP:\WWW.DEQ.STATE.MI.US\EAD\MFS**. The database supporting details included in this report is also available in the Municipal Facilities Section.

II. CAPITALIZATION OF SRF

During FY 1995, Michigan received a federal grant amounting to \$52,961,238. This federal capitalization grant was awarded on March 14, 1995. The state is also required to provide a 20 percent match for each federal dollar contributed to capitalize the SRF. To match the FY1995 federal grant, Michigan provided \$10,719,040.

In past years, the state match was drawn from **Michigan's Environmental Protection Bond Fund**. These bonds were general obligations of the state and carried no requirement that SRF repay them out of its operating accounts.

Since this source was fully obligated during FY1993, the Michigan legislature took steps to secure the balance of state match from a transfer of funds from two existing sources outside the SRF program. The first was a shift of state moneys (\$2.6 million) remaining in Michigan's Clean Water bond fund, which has provided grant assistance to communities in the past. The second involved a transfer of interest earned on the Environmental Protection bonds (\$13.0 million). Legislation to effect these transfers were contained in P.A. 30 of 1993 and P.A. 31 of 1993 respectively.

Together with projected sales of state revenue match bonds, the balances remaining from these two legislative actions provided the necessary state match for FY 1995.

The following pie chart reflects the relative amount contributed toward the state match from each source:

In addition to the federal and state capital contributions, SRF is also capitalized with principal and interest payments from earlier loans and from released funds from debt service reserve accounts. Thus, for FY1995, the total capitalization of the SRF was:

Title VI Fund	\$52,961,238
Sec 205(m) Transfers	\$ 0
State Match	\$10,719,040
Principal Repayment	\$14,890,794
Interest Repayment	\$ 6,159,577
Investment Earnings	\$18,858,301

III. PROGRAM ISSUES

All binding commitments made prior to October 1, 1994 were direct loans made at a 2 percent rate of interest. Binding commitments made during FY1995 were awarded with an interest rate of 2.25 percent. Repayments are amortized over 20 years with approximately level debt service. There were no guarantees or refinancing provided during this fiscal year. All commitments were made to qualified Section 212 projects.

There were no commitments made to Section 319 nonpoint source projects. Given the limitation of establishing a viable repayment source for nonpoint source projects, Michigan has not yet funded a nonpoint source project. This area will receive more attention during preparation of the 1996 Needs Survey.

Fulfillment of the "first use" requirement [Sec. 602 (b)(5)] was met by virtue of all communities on the National Municipal Policy list being in compliance, under court-order with a fixed schedule, or under construction.

Projects were drawn from the FY1995 Project Priority List (PPL) administered under provisions set forth in Part 53, Clean Water Assistance, of the Natural Resources and Environmental Protection Act, Act 451 of the Public Acts of 1994, and its accompanying administrative rules. A copy of this list was submitted to EPA prior to the start of FY1995. A copy is attached to this report.

All projects receiving assistance during FY1995 are designated by the State as equivalency projects and complied with, or committed to comply with, all applicable Title II requirements prescribed in Section 602(b)(6) of the Clean Water Act, as amended. No financial assistance has been offered to any community that has not satisfied, or committed to satisfy, all Title II requirements.

The MDEQ continues to promote SRF in local community meetings, through continued dissemination of the SRF Brochure and Guidance Document, through The Digester, and through participation in various public forums.

This year, staff developed a computerized presentation explaining the State Revolving Fund. This presentation is targeted toward local community groups and is available in three separate media--slides, overheads, and diskette. This presentation can be readily tailored to a specific audience by adding, deleting or editing the slides. It was created using Microsoft Powerpoint and can be run as a stand-alone file without requiring the software. Pilot testing with local officials brought praise for the clear, concise manner in which the presentation outlined the SRF program.

We have also continued our participation in the Rouge River Wet Weather Flows Demonstration Project and the Authority again hosted a special financing conference for local officials.

IV. GOALS AND ACCOMPLISHMENTS

A. Short-Term Goals and Accomplishments

Michigan's Intended Use Plan (IUP) described five short-term goals to be implemented during FY 1995. They were:

1. To continue on-going revisions to the SRF Procedures manual chapters. This is a continual process involving staff and management to review and redraft chapters to reflect changes in operational procedures of managing the SRF program.

Revision of the SRF Procedures Manual continues. Chapter IV (Application), Chapter V (Eligibility) and Chapter VI (Construction Phase) were finished during FY1995. Chapter III (Project Planning/EA/FNSI) was substantially completed before the end of the year. However, it carries a release date of October, 1995. With prior revisions to Chapter X (Bidding Documents), Chapter XII (Project Closeouts) and Chapter XIII (Alternative Justifiable Expenditures), staff has now completely re-written over one-half of the SRF Procedures Manual.

Expected chapter revisions for the upcoming year (FY1996) will include Chapter II (EPA Interface), Chapter V (Eligibility), Chapter IX (Data Management) and Chapter XI (Revenue Systems).

2. To work with the Michigan Municipal Bond Authority to integrate electronic exchange of the

financial information used in administering the SRF Program;

The program and financial managers of the SRF worked together during FY 1995 to identify hardware and software necessary to interface MDEQ's SRF data management system with the Authority's financial reports. The Authority will execute purchase requests during FY1996 and begin the process of writing code to link the two systems for real-time updates.

In the interim, the two agencies shared computer files throughout the year to update the SRF database with financial information.

3. To secure a permanent and on-going source of state match funding outside the SRF.

The department's focus during FY1995 rested more on other environmental initiatives. At the present time, the program is stable enough to permit necessary funds to be obtained through the sale of state match revenue bonds.

Staff continues to present this option as the least desirable, given that it will erode the SRF's ability to fund actual environmental construction. However, it is a permissible use of funds under the federal Clean Water Act, as amended.

We will continue to solicit support and investigate new ways to meet this need, providing Congress reauthorizes additional federal funding.

4. To add report generation capabilities for the SRF Data Management System.

During this fiscal year, staff has successfully added query-based report generation capabilities to the data management system. These reports have provided much of the data incorporated into this annual report.

In addition, managers and representatives of project staff have devoted substantial time in addressing further refinements of the system. This has resulted in screen re-design to enhance user-friendliness, streamlined data tables, development of macros to automate many functions and cross-checking capabilities. The database is now almost fully populated with key data through the present fiscal year.

During the upcoming fiscal year, this process will be completed and the system will be fully operational. The next step will assist the Authority to establish real-time links to MDEQ's database.

5. To work with EPA and the Association of State and Interstate Water Pollution Control Administrators (ASIWPCA) to promote reauthorization of the federal Clean Water Act.

This short-term goal appears to be more accurately classified as a long-term goal, given the lack of agreement in Congress. H.R. 961 held promise that perhaps it would be the legislative vehicle for reauthorization. Other legislative priorities have prevented passage.

Michigan continues to play an important role through ASIWPCA and the Council of Infrastructure Financing Authorities (CIFA). Staff has also worked closely with the National Governors' Association, providing technical assistance on key state positions.

6. To fund those projects identified in the IUP, enabling them to proceed with construction of facilities included in their adopted project plan.

Of the 40 projects on the final FY1995 Project Priority List, the SRF provided financial assistance to 17 projects totaling \$ 70,130,000. Several communities were originally included in the fundable range, but failed to take the steps necessary to complete their financing. The additional amount of binding commitments brings the grand total since inception to \$466,490,000.

It is extremely important to note that several projects in the Rouge River Wet Weather Demonstration Project originally received binding commitments from the State Revolving to finance costs of construction. Since these projects qualified for grants from the demonstration project, the original binding commitments from the SRF were reduced during FY1995. Binding Commitments originally recorded in that year of \$158,210,000 have been revised to reflect a new total of \$ 69,545,000. A list of these projects is available upon request.

B. Long-Term Goals and Accomplishments

Michigan's IUP also included six long term goals that would be addressed by the SRF. They were:

1. To achieve and maintain statewide compliance with state and federal laws, as well as Michigan's water quality standards;

The SRF is a major inducement for local municipalities to cooperate and voluntarily seek to achieve compliance with state and federal laws and water quality standards.

MDEQ maintains a core belief that achievement of pollution prevention is far more cost-effective than paying for clean-ups after the fact. To this end, the department is working to enhance compliance efforts through greater education and outreach within several targeted industries, commerce, and local units of government.

Each potential project is examined to ensure compliance with water quality standards, while also meeting criteria to establish the solution as the cost-effective alternative in order to protect the viability of the SRF.

It is important to note that after seven years of operation, Michigan's SRF program is the nation's leader in funding Combined Sewer Overflow (CSO) abatement efforts. Chart 3 identifies the total expenditures in each of the categories tracked for the federal Grants Information Control System. It shows that 62 percent of the current binding commitments went toward abatement of CSO problems. This is slightly higher than the five earlier years when 58 cents of every dollar was committed to such efforts.

2. To protect the public health and environmental quality of our state.

Inherent within the program is our resolve to first protect the public's health and welfare. Our

priority system is structured to give greatest weight to problems which most impact the health of Michigan's citizens and environmental integrity of our state.

3. *To continue working toward integrating Section 319 nonpoint source pollution projects into the mainstream of SRF.*

This goal once again remains elusive. Until a satisfactory method of loan repayment is identified, Michigan will continue to seek out ways to incorporate Section 319 projects. In this fiscal year, we studied Ohio's Linked Deposit program and began investigatory meetings that will lead to continuing discussion with agri-finance institutions. Staff will work on identifying nonpoint sources needs in preparation for the 1996 Needs Survey.

4. *To further integrate principles of watershed management and water quality restoration within urban, as well as outstate, areas.*

The SRF data management system has been designed to identify major watersheds for each project. This will facilitate closer cooperation of field staff and central managers to oversee projects that will impact entire watershed areas.

We have already sought to incorporate the watershed sensitivity into our project management. A good example is the Grand Rapids Combined Sewer Overflow correction strategy which minimizes pollutants downriver in other communities of the Grand River watershed. Our continuing efforts to work with the communities in the Rouge River watershed in addressing their needs also reflects our commitment to watershed management.

In addition, the SRF funded several projects that contributed to improvements in Lake St. Clair. The lake received heavy press coverage in the summer of 1994 when water quality levels eroded to the point of beach closures. We were working with the local communities before the general public became aware of problems and were able to demonstrate that steps being taken would improve the water quality of the lake.

Further initiatives for watershed management will undoubtedly occur during the next fiscal year. MDEQ is actively pursuing ways to enhance watershed management as a department-wide goal.

5. To secure Michigan's full share of federal funding available under Title VI and to expeditiously obligate these moneys, along with state contributions for the construction of water pollution control activities that meet state and federal requirements. Funds shall be loaned at a rate of interest low enough to encourage the use of SRF and administered in a sound fiscal manner to ensure that repayments to the fund will be available for future use according to the standards of perpetuity set forth at the program's inception.

The SRF has applied for and received all available capitalization grants through FY 1995's federal appropriation. These funds are being committed to local units of government in an expeditious manner.

6. To establish an effective program of community environmental

education, outreach, and involvement within watersheds.

Through the Digester (the SRF's triennial newsletter), public meetings, and news releases, the public's awareness of the SRF has been expanded.

Staff has also successfully concluded two specific outreach initiatives during this fiscal year. The development of a presentation which explains the SRF to local community groups has already been addressed. We also worked with students and other interested local groups in the Lake Superior basin to provide training in monitoring stream conditions.

This was accomplished in a joint venture between the Department of Natural Resources and the Global Rivers Environmental Education Network (GREEN). Teachers and environmental professionals from the Lake Superior area were invited to attend a training workshop conducted by GREEN. Representatives of the Natural Resources Conservation District Office were also recruited to serve as a trained local contacts for future support.

A separate report on this project is available by contacting the Municipal Facilities Section.

V. DETAILS OF ACCOMPLISHMENTS

A. Fund Financial Status

1. Binding Commitments: The SRF made 17 additional binding commitments to Section 212

projects during the fiscal year. No assistance was awarded to any project not meeting Section 212 criteria. The state's commitments are made in the form of Orders of Approval issued by the Chief of the Environmental Quality Division on behalf of the MDEQ.

Chart 1 (*Funded SRF Projects to Date*) provides a complete, chronological list of all projects assisted by the SRF. Cumulative loan amounts and number of projects funded in each fiscal year are included. The amounts for FY1995 are identified beginning on the bottom of page 2 and continuing on page 3.

\$70,130,000 was committed during FY1995. Taking into account adjustments made during the fiscal year for Rouge River projects, the total cumulative binding commitments to communities equals \$466,490,000 as of September 30, 1995.

If we include 4 percent of the federal capitalization grants to date, which is counted by EPA toward binding commitment as state administrative expense, the total is increased to \$ 484,137,308. These amounts are reflected on Chart 1B and demonstrates how Michigan's SRF satisfies Sec. 602(b)(3) of the federal Clean Water Act. This chart documents Michigan's progress in offering binding commitments to exceed the required 120% of federal ACH increases within 1 year.

Due to the reduction in the Rouge projects, we will have to adjust our draws on the EPA Automated Clearing House (ACH) during the upcoming fiscal year. With expected levels of binding commitments during the upcoming year, we should be right on target for draws processed during FY1995.

2. Capitalization Grants: The Michigan Water

Pollution Control Revolving Loan Fund was awarded a capitalization grant from FY1995 federal funds. This amounted to \$52,961,238 and was matched by the state with a \$10,719,040 contribution. Loans were awarded from these funds, in part, and from remaining uncommitted balances from earlier awards.

Payments on the capitalization grants increased the funds available through the ACH process. \$45 million represented the increase in ACH payments made by EPA during the fiscal year on the FY1994 capitalization grant. ACH payment on the FY1995 grant amounted to \$15 million prior to the end of the fiscal year. Payments are complete for the FY 1989, 1990, 1991, 1992 and 1993 capitalization grants.

There remains \$ 8,595,202 due on FY1994 and \$ 37,961,238 on the FY1995 capitalization grants.

Chart 1B also presents the federal payments to Michigan, by quarter, for each of the awarded federal grants.

3. Other Revenue: In addition to the capital provided by EPA and the state, principal repayments of \$14,890,794 and interest repayments of \$6,159,577 were made to SRF by local borrowers of earlier fiscal year funds. Other sources of investment income totaling \$18,858,301 were also generated from fund holdings and will be identified in the Authority's financial reports.

4. Disbursements: Additional disbursements of \$74,377,742 were made during FY 1995, bringing the total during the program's six years up to

\$367,780,486. This included administrative expenses accrued to the Authority during the fiscal year in the amount of \$214,026. The amount of \$1,758,729 covered expenses accrued to the MDEQ for the same period of time. **For the sake of clarity, it should be noted that expenses are accrued for the fiscal year and may not be fully disbursed in cash prior to the end of the year.** These amounts are identified in *Chart 4, Sources/Uses of SRF Funds*.

Other bond expenses (underwriter costs and bond counsel) are not paid from SRF funds held on account.

5. Audit Report: An audit of the Authority's financial records for the SRF will be forwarded upon completion. Unaudited financial records will be sent under separate cover from the Authority.

The last audit concluded by Plant Moran during FY 1995 found that the SRF program reporting procedures were in compliance with Generally Accepted Accounting Principles (GAAP), and also encompassed Generally Accepted Governmental Accounting Standards (GAGAS). The audit supported findings of the 1994 Annual Report.

We believe these financial statements reflect the condition of Michigan's SRF and underscore the sound management necessary to ensure the health of the fund in relation to its goals and objectives. This state has fulfilled requirements found at 40 CFR 3135(h) by establishing fiscal controls and accounting procedures to assure proper accounting for payments received by SRF, disbursements made by SRF, and SRF balances.

6. Credit Risk of SRF: Michigan undertakes an exhaustive review of each applicant's credit-worthiness. This review examines the financial

health of the community and its primary commercial and industrial base. The resulting approval of each applicant provides a sound basis for awarding assistance to only those communities possessing the ability to repay the loan.

No assistance is offered to any community that is unable to demonstrate an investment grade rating. If a community cannot demonstrate a minimum investment grade rating, we expect them to seek credit enhancement or finance through another governmental agency (such as the county). This must be done in order to secure their credit position before the Order of Approval can be written.

B. Assistance Activity

Loan assistance through the Authority was awarded to each of the municipalities that received an Order of Approval from MDEQ. These are included in *Chart 1*.

C. Provisions of the Operating Agreement/Conditions of the Grant

The state of Michigan agreed to a number of conditions in the Operating and/or Capitalization Grant Agreement. These conditions are described below:

1. Provide a State Match: The Michigan Legislature appropriated the amount necessary for the 20 percent FY 1995 state match. It is held in a state common cash fund administered by the Michigan Department of Treasury.

The state match is appropriated by the Michigan Legislature and is held in a common cash fund at

the Michigan Department of Treasury. At, or prior to, the time of each draw on the federal Automated Clearing House (ACH), state funds are deposited to the SRF account through a state transfer process consistent with federal requirements.

The match for projects awarded prior to the start of FY1995 is appropriated from funds that carry no requirement for repayment from SRF capital funds. They were derived from two district sources, interest earnings on the state's Environmental Protection Bonds, transfer of funds from the state's Clean Water Bonds.

The match for FY1995 projects comes, in part, from funds resulting from sale of state match revenue bonds. Since Michigan chooses to first expend cash on hand, we hold sale of the state match revenue bonds until such time as other funds are no longer available. In this way, while we identify such bonds as the source of state match, we will not actually draw upon them until necessary. This strategy saves the interest cost of the bonds until they are actually needed for expenditures.

2. Binding Commitments: The state entered into 17 binding commitments to provide assistance from the SRF to local municipalities. By the act of offering these commitments during FY 1995, Michigan has exceeded the requirement for award of 120 percent of the payment amount within one year. Documentation of performance is shown in *Chart 1B*.

Additionally, we account for \$7,963,192 in actual administrative expenses, which are also applied against the state's binding commitment requirement. EPA staff has allowed that the full 4 percent of the federal capitalization grants should be accounted as binding commitment at the time of each grant award. Michigan has chosen to account for actual

administrative expenses for programmatic reasons.

3. **Expeditious and Timely Expenditure of Available Funds:** The disbursement processing system established by MDEQ and the Authority has consistently provided communities with funds within ten days of receipt of their disbursement request form.

Michigan's total processing time for payments is less than 10 days from receipt of request for funds to the wire transfer. State funds are drawn simultaneously with the federal funds during this time. The state match is drawn from the available funds exactly as the federal ACH is processed. The state portion is drawn through the treasury inter-accounting system. The federal share is provided through the federal ACH.

The draw method used in Michigan satisfies our state requirements to provide a state match prior to, or at the time of, the federal draw on the ACH system.

EPA annually reviews the reimbursement process used by MDEQ and the Authority to ensure that payments to municipalities are made in a timely and expeditious manner. In most instances, a wire transfer occurs within 10 days of receipt of a request for reimbursement from the local unit of government. The EPA on-site visits have affirmed Michigan's sustained ability to turn payment requests around quickly. The local communities and the contractors know that we will be expeditiously handle this important task, ensuring no delays in the flow of funds to the project. Documents upon which this assessment is based are available for inspection at MDEQ and Authority offices and are included in the SRF database.

4. **First Use of Funds for Enforceable Requirements:**

The EPA Region 5 has concurred with Michigan's certification of these requirements. All communities are either in compliance, under court-order with enforceable schedules, under construction, or are funded.

5. Amendments to Original Intended Use Plan: The final Intended Use Plan and Project priority list for FY1995 were submitted to EPA on December 20, 1995.

6. Compliance with Title II requirements: Each municipality assisted during FY 1995, has fully complied with, or has committed to comply with, all Title II requirements. Therefore, all dollars committed by the state will count toward the equivalency requirements for Michigan's SRF.

7. Minority and Women's Business Enterprises: In order to meet federal initiatives, the state of Michigan agreed to an overall fair-share objective for FY 1995 of 4 percent for Minority Business Enterprise (MBE) and 4 percent for Women's Business Enterprise (WBE). In its attempt to meet this objective, the state advised all potential applicants for SRF loans of this commitment. In addition, the state included a reporting requirement as a special condition in all supplemental agreements executed between the loan recipient, MDEQ and the Authority.

Compliance with the loanee's reporting requirements has shown that the state of Michigan has exceeded its MBE/WBE objective for FY 1995 by reaching an actual participation of 7.48 percent for MBE's and 4.77 percent for WBE's. These figures were reported on October 12, 1995 to Mr. Robert Richardson, EPA's MBE/WBE's Officer, in the state's submission of reporting for the fourth quarter of FY 1995.

As part of the state's continuing effort to meet the MBE/WBE objective, presentations are made at the pre-bid meetings to explain the federal requirements to potential contractors, subcontractors and suppliers.

8. Other Federal Authorities: The state of Michigan requires each municipality to comply with all applicable federal cross-cutting authorities and stipulates that the authorized representative so certify in the application. The Application for Assistance sets forth municipal requirements for compliance with federal cross-cutters.

We seek up-front coordination by involving a wide range of agencies in the Finding of No Significant Impact (FNSI) process during drafting of the Environmental Assessment (EA). These federal, state, and local agencies are given the chance to add input to the project and comment on any cross-cutting issues.

Environmental cross-cutters are typically addressed during review and approval of a project plan. Activities conducted by MDEQ staff are presented in the Project Planning/EA chapter of our SRF procedures manual.

Cross-cutting issues relating to social legislation are dealt with prior to the loan award through applicant certifications mentioned earlier and through follow-up reporting, such as in the case of MBE/WBE requirements.

Our staff procedures manual outlines the appropriate response in the event cross-cutting issues arise. When warranting circumstances arise, we coordinate contacts with appropriate agencies. If necessary, the state will seek assistance from EPA

for help with non-agency federal offices.

9. State Environmental Review Process: The 17 communities receiving assistance during FY 1995 were reviewed and approved using the state's environmental review procedures. It was determined that no Environmental Impact Statements (EIS) were necessary; instead an EA was prepared and a FNSI was issued for each project.

The SRF was challenged in Federal District Court over funding of a project. In its ruling, the court supported Michigan's environmental review process in its application of both federal and state laws.

10. Consistency with Planning: No project plan in the state of Michigan can be approved without sign-off from the appropriate 208 planning agency, which documents the submittal is consistent with regional planning. Assurance of this review is inherent within each and every plan we approve.

Section 205(j) and 303(e) requirements are administered separately from SRF by other sections of the Surface Water Quality Division. Sec. 303(e) requirements are satisfied via our state permitting process. In order to continue Michigan's delegated permit writing program, the state must comply with Section 303(e). Prior to receiving the first capitalization grant, this office verified the existence of an approved planning process. The EPA's continued recognition of our delegation is proof that we remain in compliance.

Further, Section 205(j) requirements are handled through the Surface Water Quality Division's (SWQD) administrative unit. Grants have been made to several local and regional entities to carry

out water quality management planning.

Approximately 40 percent of the 205(j) allotment goes to support local units of government. The remainder is used within the SWQD to support water quality management planning activities within MDEQ.

11. Cash Disbursements: Procedures are executed in conjunction with the Authority. The MDEQ receives requests for disbursements from the local municipalities. We review them for content and accuracy and then transmit them simultaneously to the Authority and the MDEQ'S Office of Budget and Federal Aid. The respective offices will process a request for a state match transfer into SRF and process a request to draw on the federal ACH system in accordance with 40 CFR 35.3135(b)(1). Once in the SRF account, the Authority processes a wire transfer of funds to the local municipality.

This process has been successful in disbursing moneys from SRF within 10 days of receipt of a request from the municipality.

12. Administration of SRF: The MDEQ has agreed to administer SRF in accordance with its application, IUP and the Operating Agreement. In doing so, certain administrative procedures are implicit. The operation of the fund is bound by the following provisions:

agreement to accept payments

state laws, rules and procedures

state accounting and auditing procedures

recipient accounting and auditing procedures

use of ACH federal payment system

repayment

annual audit requirements

annual report

annual review

To the extent of any conflict amongst these documents, the MDEQ further agreed that terms of the Grant Agreement will prevail.

13. Automated Clearinghouse: Michigan has agreed to accept payment from EPA through the ACH system and abided by cash draw rules. The issue of the multiplier for the leveraged program was raised by EPA in their 1993 Annual Review. The Authority, in turn, questioned the proper method to be employed in calculating the multiplier. Region V has asked headquarters for clarification and received guidance that did little to clarify the issue. Staff of the Authority is looking into the issue further.

14. Legal Certifications: The state of Michigan has provided all necessary certifications from the state Attorney General's office, which attest to its ability to implement SRF and bind itself to the terms of the Capitalization Grant Agreement. The certification for the FY 1995 capitalization grant was dated January 18, 1995.

15. Cash Draw Schedules: The cash draw figures set forth in *Chart 5, Project Disbursements*, reflect chronological disbursements made to each project during the fiscal year.

VI. SIGNIFICANT PROJECT ACCOMPLISHMENTS OF THE SRF

FY1995. In September, the SRF committed its 100th loan since the program's inception in 1989.

In six years since the first loan was awarded to the City of Marshall on September 27, 1989, the SRF has committed \$466 million in loans to local units of government. Of this total amount, \$75 million has been used to fund construction of sewage treatment facilities; \$30 million for sewer rehabilitation projects; \$70 million for collector and interceptor sewers; and \$291 million for combined sewer overflow (CSO) abatement. The amount expended in this last category is significant in that it places Michigan as a national leader in addressing CSO concerns.

The rate for projects funded during the first five years was 2 percent. For 1995 projects, it increased to 2.25 percent. These translate into approximately 40 percent grants when compared against the open market.

Municipalities all across the state have benefited from the SRF. A few examples include:

Lansing	\$ 3 4 m ill io n	6 p r o j e c t s
Grand Rapids	\$ 6 8 m ill io	1 0 p r o j

	n	e c t s
Saginaw	\$ 7 5 m ill io n	6 p r o j e c t s
Upper Peninsula communities	\$ 6. 7 m ill io n	3 p r o j e c t s
Projects tributary to Lake St. Clair	\$ 5 2 m ill io n	1 0 p r o j e c t s

The largest single loan to date was offered for Milk River CSO retention basin in Wayne County in the amount of \$22.64 million. The smallest loan for construction went to Bingham Township in Clinton County who borrowed \$430,000 from the SRF.

Specific project highlights of this fiscal year include:

Continuing efforts in coordinating the SRF with the Rouge River Wet Weather Demonstration Project;

Efforts to reverse water quality degradation in Lake St. Clair;

Completion of significant efforts in Saginaw funding last major project for CSO abatement; and

Award of last loan in the series for Grand Rapids' westside CSO resulting in decreased flows in the Grand River.

Program achievements include:

The substantial completion of the first phase of the SRF Data Management System;

Distribution of available funds; and

Administrative completion of 20 projects.

To date, Michigan's SRF has awarded \$466.5 million in loans and has disbursed \$365 million in project expenses. This represents 78 percent outlays of loan awards to date for projects. We have awarded 84 percent of the \$544 million available for commitment from federal and state capital contributions. Interest repayments from earlier awards are being held for possible repayment of state revenue match bonds for future issues. Principal payments from these loans and investment earnings have been building and will be used to supplement declining federal capital contributions. This strategy allows us to better maintain program expectations within the municipal, consulting, and contractor stakeholders.

The SRF is proving to be much more efficient in administratively completing projects than the predecessor Construction Grants program. The following is a list

of projects that have been completely through the end of FY1995:

S R F #	ID	B i n d . C o m m .	F i n a l T o t a l	D E Q L e t t e r	R e c o v e r y
5 0 5 3 - 0 1	Manchester	\$ 9 5 5 , 0 0 0	\$9 54 ,2 82	1 0 - F e b - 9 3	\$718
5 0 2 1 - 0 1	Cass Co	\$ 5 , 2 5 0 0 , 0 0 0	\$5 ,2 50 ,0 00	1 2 - M a r - 9 3	\$0
5 0 1 7 - 0 1	Belding	\$ 2 , 2 4 5 , 0 0 0	\$2 ,0 45 ,7 43	0 9 - A p r - 9 3	\$199 ,257
5 0 2 5 - 0 1	Grand Traverse Co	\$ 2 , 2 5 5 , 0 0 0	\$2 ,1 57 ,3 36	2 4 - M a y - 9 3	\$97, 664
5 0	Plainfield Twp	\$ 1	\$1 ,4	2 8	\$54, 251

2 2 - 0 1		, 4 8 5 , 0 0 0	30 , 7 49	- J u l - 9 3	
5 0 1 9 - 0 1	lonia	\$ 6 , 4 7 5 , 0 0 0	\$6 , 3 82 , 2 51	1 7 - A u g - 9 3	\$92, 749
5 0 3 9 - 0 1	Ottawa Co	\$ 2 , 0 7 5 , 0 0 0	\$1 , 9 35 , 9 71	0 4 - N o v - 9 3	\$139 ,029
5 0 0 1 - 0 1	Marsha ll	\$ 1 , 8 0 0 , 0 0 0	\$1 , 8 00 , 0 00	2 0 - F e b - 9 4	\$0
5 0 4 0 - 0 1	Calhou n Co	\$ 1 , 6 4 5 , 0 0 0	\$1 , 5 59 , 0 32	1 4 - M a y - 9 4	\$85, 968
5 0 1 5 - 0 1	Calhou n Co	\$ 3 , 1 7 0 , 0	\$3 , 0 44 , 6 06	2 7 - M a y - 9	\$125 ,394

		0 0		4	
5 0 1 2 - 0 1	Clinton Co	\$ 4 3 0 , 0 0 0	\$4 30 ,0 00	2 3 - J u n - 9 4	\$0
5 0 7 7 - 0 1	Grand Ledge	\$ 1 , 6 1 5 , 0 0 0	\$1 ,5 25 ,1 92	2 3 - S e p - 9 4	\$89, 808
5 0 2 7 - 0 2	Bay Co	\$ 1 , 2 5 0 , 0 0 0	\$1 ,2 50 ,0 00	1 7 - N o v - 9 4	\$0
5 0 2 7 - 0 1	Bay Co	\$ 6 , 0 0 0 , 0 0 0	\$6 ,0 00 ,0 00	1 7 - N o v - 9 4	\$0
5 0 6 7 - 0 1	Menom inee	\$ 1 , 5 2 0 , 0 0 0	\$1 ,5 20 ,0 00	0 5 - D e c - 9 4	\$0
5 0 6 9	Escana ba	\$ 1 , 4	\$1 ,3 82 ,0	1 6 - D	\$47, 908

- 0 1		3 0 , 0 0 0	92	e c - 9 4	
5 0 7 3 - 0 2	Grand Rapids	\$ 2 , 6 5 0 , 0 0 0	\$2 ,3 65 ,8 10	0 3 - J a n - 9 5	\$284 ,190
5 0 8 0 - 0 1	Calhou n Co	\$ 4 0 5 , 0 0 0	\$3 81 ,6 68	3 0 - M a r - 9 5	\$23, 332
5 0 7 3 - 0 3	Grand Rapids	\$ 1 2 , 4 7 5 , 0 0 0	\$1 1, 93 4, 25 4	1 7 - J u l - 9 5	\$540 ,746
5 0 6 2 - 0 1	Macom b Co	\$ 1 , 1 7 0 , 0 0 0	\$1 ,1 70 ,0 00	1 7 - A u g - 9 5	\$0

Chart 7 - Project Initiation of Operation (I/O) Dates demonstrates the projects that have actually commenced operations of the municipalities' projects. To date 53 projects have actual I/O dates. This represents over half of the total loans awarded since the inception of the SRF.

VII. CONCLUSIONS

Michigan's SRF program continues to earn the respect of those it serves. A core of experienced professionals has been instrumental in working with local municipalities to achieve improvements in water quality across the state.

We have successfully balanced distribution of funds to all parts of the state, to both large and small communities who have documented their water pollution problems and followed through with cost-effective plans and designs.

examining other state programs. These efforts, along with the outreach activities we conduct, should help to ensure the continuing success of Michigan's State Revolving Fund.